

Fiscal Services Division

Legislative Services Agency

Fiscal Note

Amendment H-1410 to HF 848 - School Foundation Level (LSB 2134 HZ.1)

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Fiscal Note Version – New

Requester: Representative Rob Hogg

Description

Amendment H-1410 to House File 848 makes changes to the supplemental property tax for community colleges and merges most of HF 847 (Property Tax Reform II) into this Bill. The portions of HF 848 that amend Section 257.1, Code of Iowa, to incrementally phase in an increase in the foundation level for regular program costs and school special education costs from the current 87.5% to 100.0% beginning in FY 2007 through FY 2013 are not changed by this amendment.

Local Workforce and Economic Development Fund: The Amendment creates a Local Workforce and Economic Development Fund at each community college funded through a property tax. The bases for determining the property tax rate are the community colleges budgeted expenditures for the employer contributions under the Federal Insurance Contributions Act (FICA), the employer contributions to employees' retirement systems, utility costs, and ten cents per thousand dollars of assessed valuation. The property tax is phased in over five years in 16.0% increments to a maximum of 80.0% of the identified budgeted costs. The Bill specifies how these funds may be used.

Statewide Property Assessment Appeal Board: The Amendment creates a Statewide Property Assessment Appeal Board to hear appeals of local boards of review for the assessment year beginning January 1, 2007. The appellant still may appeal directly to District Court, rather than going to the Statewide Board. An appellant who first appeals to the Statewide Board, may then appeal the Statewide Board's decision to District Court.

The Amendment requires local assessors to use the forms and apply the guidelines contained in the Real Property Appraisal Manual prepared by the Department of Revenue. Willful disregard of the assessment rules, forms, and guidelines may result in the Department withholding the county's or city's homestead property tax credit reimbursements. Assessors may apply to the Director of the Department of Revenue to use alternative manuals, guidelines, or forms.

Property Class Ties: The Amendment ties together the taxable value growth limitations for residential, agricultural, commercial, and industrial property by limiting the increase to the lowest percentage for all of those classes or 4.0%, which ever is lower. This is retroactive to January 1, 2005, assessment year.

Assumptions

Local Workforce and Economic Development Fund: Community College supplemental property tax funding estimate was based on recent historical expenditures:

- Salaries are the basis for FICA and retirement contributions and increase 4.5% annually.
- Utility costs increase 9.4% annually.
- Taxable values increase at the rates specified for the K-12 foundation formula.

Statewide Property Assessment Appeal Board: The Statewide Property Assessment Appeal Board estimate was based on the following assumptions:

- The Board will have six employees beginning January 2007: three board members, an Executive Secretary, General Counsel, and a secretary.
- The three board members' salaries will be comparable to a District Court Judge (\$112,000, plus 17.5% for benefits).
- The Executive Secretary's salary will be similar to that of an executive secretary or executive director of a small agency (\$73,000, plus 26.0% for benefits).
- The General Counsel's salary will be comparable to a mid-range Deputy Attorney General II salary (\$63,000, plus 26.0% for benefits).
- The secretary's salary will be comparable to a mid-range Secretary 2 salary (\$33,000, plus 30.0% for benefits).
- An Administrative Law Judge 2 is estimated to cost \$75,000 plus 26.0% for benefits. It is assumed the Board will not hire Administrative Law Judges until the second year of operation, and then according to demand.
- Additional costs for office space, office equipment, and offices supplies will be incurred. To the extent that the Department of Revenue has space, equipment, and supplies available, these costs will be reduced. These costs are not included in the estimate.
- The Board will likely incur travel and lodging expenses which are not estimated here.
- The Board may request that the Department of Inspections and Appeals have an Administrative Law Judge hold assessment appeal hearings. The estimated cost of a hearing is \$362. There is no estimate of how many hearings will be handled in this manner.
- It is assumed the Department of Revenue will request funding from the General Fund to operate the Board.
- In 2003, 456 local Board of Review assessment rulings were appealed to District Court. This type of case falls in the category of law and equity cases in a time-usage study conducted by the Judicial Branch. The average cost for cases of this type (including all outcomes – dismissals, settlements, and trial) was \$203 per case. The maximum savings if all cases are diverted would be approximately \$93,000. For those appeals of the Statewide Board's rulings, the Courts would experience some savings as the cases would be limited to corrections of errors instead of a de novo review.

Property Class Ties: The estimate for tying together the taxable valuation growth for residential, agricultural, commercial, and industrial classes of property was based on the following assumptions:

- For this example, the growth in property value and new construction would follow the same pattern in assessment years 2005 through 2014 as occurred between 1995 and 2004.
- The agricultural class had the smallest growth rate for each assessment year 1995 through 2004 and would likewise have the smallest growth and provide the limit on growth for assessment years 2005 through 2014.
- The pattern of rollbacks projected by the Department of Revenue for commercial and industrial valuations when tied to agricultural valuation growth would be repeated proportionately in assessment years 2005 through 2014, since all other growth patterns were being repeated for this projection.
- The consolidated tax rate is \$35.00 per \$1,000 taxable valuation. The Uniform Levy remains at \$5.40 per \$1,000 of taxable valuation.
- State Foundation Aid, paid from the General Fund, will increase to offset reductions in Uniform Levy revenues. The Additional Levy rate will increase to accommodate a decrease in taxable valuations.

Fiscal Impact

Local Workforce and Economic Development Fund: Amendment H-1410 increases funding for community colleges through property taxes as follows:

Area Education Agency	FY 2007		FY 2008		FY 2009		FY 2010		FY 2011	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
I Northeast	\$ 526,019	\$ 0.07	\$ 1,100,768	\$ 0.15	\$ 1,732,369	\$ 0.23	\$ 2,571,049	\$ 0.33	\$ 3,177,102	\$ 0.40
II North Iowa	388,375	0.08	815,153	0.18	1,286,279	0.27	1,914,781	0.40	2,372,555	0.49
III Iowa Lakes	429,139	0.12	907,174	0.25	1,441,064	0.39	2,160,860	0.58	2,695,753	0.71
IV Northwest Iowa	177,985	0.07	373,074	0.15	588,085	0.24	874,312	0.35	1,082,248	0.42
V Iowa Central	498,685	0.10	1,050,186	0.20	1,662,408	0.31	2,483,228	0.46	3,086,973	0.56
VI Iowa Valley	402,570	0.12	850,870	0.26	1,351,365	0.40	2,025,989	0.59	2,526,976	0.72
VII Hawkeye	567,515	0.09	1,192,891	0.19	1,884,873	0.29	2,810,058	0.43	3,486,687	0.53
IX Eastern Iowa	763,038	0.08	1,602,239	0.16	2,529,870	0.25	3,768,086	0.37	4,672,319	0.45
X Kirkwood	1,316,001	0.09	2,763,661	0.18	4,363,123	0.28	6,498,684	0.41	8,056,448	0.50
XI DMACC	1,496,738	0.06	3,125,445	0.12	4,910,246	0.19	7,272,010	0.28	8,970,681	0.34
XII Western Iowa	470,571	0.09	988,469	0.18	1,560,992	0.28	2,325,684	0.41	2,884,067	0.50
XIII Iowa Western	512,355	0.09	1,080,367	0.18	1,712,736	0.29	2,562,065	0.43	3,190,119	0.52
XIV Southwestern	191,638	0.09	403,359	0.18	638,282	0.28	952,980	0.42	1,184,314	0.51
XV Indian Hills	570,255	0.14	1,200,035	0.30	1,896,993	0.46	2,830,713	0.68	3,513,158	0.83
XVI Southeastern	338,914	0.12	712,934	0.24	1,126,904	0.37	1,681,118	0.55	2,086,431	0.67
Total	<u>\$ 8,649,799</u>	<u>\$ 0.08</u>	<u>\$ 18,166,623</u>	<u>\$ 0.17</u>	<u>\$ 28,685,589</u>	<u>\$ 0.27</u>	<u>\$ 42,731,617</u>	<u>\$ 0.40</u>	<u>\$ 52,985,831</u>	<u>\$ 0.48</u>

The above tax rates are the amount per thousand dollars of assessed valuation.

Statewide Property Assessment Appeal Board: The Property Assessment Appeal Board will cost an estimated \$305,000 in salaries and benefits for the last six months of FY 2007, and an estimated \$611,000 for the whole year in FY 2008. There will be additional costs for office space, equipment, supplies, and for travel. If the Board hires administrative law judges, each one will increase salary and benefits costs by approximately \$94,000 annually. Each appeal referred to the Department of Inspections and Appeals to be heard by an administrative law judge will cost approximately \$362.

The Courts will likely experience some cost savings from reduced appeals of local Board of Review assessment appeal rulings, but these savings are not likely to be significant.

Property Class Ties: Creating rollbacks based on tying together residential, agricultural, commercial, and industrial classes taxable value growth will reduce the taxable valuations. If property tax rates are not increased, there will be a resulting decrease in revenues from property taxes. For example, if the pattern of the last ten years is repeated in the next ten years, the following reductions would occur if levy rates are not increased.

Fiscal Year	Assessment Year	Proposed Law Taxable Value Change	\$35.00 Consolidated Levy	\$5.40 Uniform Levy
2007	2005	\$ -1,479,715,312	\$ -51,790,036	\$ -7,990,463
2008	2006	-2,286,120,491	-80,014,217	-12,345,051
2009	2007	-2,665,145,744	-93,280,101	-14,391,787
2010	2008	-2,384,811,937	-83,468,418	-12,877,984
2011	2009	-2,682,261,070	-93,879,137	-14,484,210
2012	2010	-2,284,443,842	-79,955,534	-12,335,997
2013	2011	-3,828,746,098	-134,006,113	-20,675,229
2014	2012	-4,854,202,455	-169,897,086	-26,212,693
2015	2013	-7,250,859,440	-253,780,080	-39,154,641
2016	2014	-7,641,400,795	-267,449,028	-41,263,564

This example repeats the growth pattern of the last ten years and shows that revenues for taxing authorities would decrease by approximately \$51.8 million in the first year. The reduction

would continue, reaching a \$267.4 million reduction after ten years. To the extent that taxing authorities can raise levy rates within established limits, they would not experience revenue reductions. The Uniform Levy decrease would be offset by increased State Foundation Aid for school districts, at a cost to the General Fund of \$8.0 million in the first year (FY 2007) increasing annually to \$41.2 million after ten years.

Over the ten-year example, the proportion of property taxes paid by residential taxpayers would increase by 2.5%, agricultural taxpayers' proportion of taxes would increase by 0.7%, and commercial and industrial taxpayers' combined proportion would decrease by 3.3%.

These property tax estimates should be treated as an example since projected amounts will vary to the extent that the next ten years' growth differs from the preceding ten years.

Combined Impact of HF 848 and Amendment 1410:

House File 848, as amended by H-1410, will have the following impact on the State General Fund.

Changes Affecting the State General Fund (Dollars in Millions)

Fiscal Year	HF 848	Tie Property Class Growth	Prop. Assess. Appeal Board	Total
FY 2007	\$ 51.20	\$ 7.99	\$ 0.31	\$ 59.19
FY 2008	107.28	12.35	0.61	119.62
FY 2009	167.58	14.39	0.64	181.97
FY 2010	233.04	12.88	0.67	245.92
FY 2011	310.40	14.48	0.70	324.88
FY 2012	394.66	12.34	0.73	406.99
FY 2013	490.20	20.68	0.76	510.88

Notes:

1. The property class tie reduces commercial and industrial taxable value which must be offset by increased General Fund expenditures for State Foundation Aid.
2. The Statewide Property Assessment Appeal Board costs are assumed to grow at the same rate as the community college salaries or 4.5% annually.

House File 848, as amended by H-1410, will have the following impact on property taxes.

Changes Affecting Property Taxes (Dollars in Millions)

Fiscal Year	HF 848	Comm. Coll. Supplemental Property Tax	Total
FY 2007	\$ -51.20	\$ 10.81	\$ -40.39
FY 2008	-107.28	22.71	-84.57
FY 2009	-167.58	35.86	-131.72
FY 2010	-233.04	50.27	-182.77
FY 2011	-310.40	50.27	-260.13
FY 2012	-394.66	50.27	-344.39
FY 2013	-490.20	50.27	-439.93

Note: Property taxes may be reduced for those taxing authorities that are unable to increase rates sufficiently to offset the reduction in commercial and industrial property taxable valuations.

Sources

Department of Management
Department of Education
Des Moines Area Community College
Department of Revenue
Department of Inspections and Appeals
Office of the Attorney General
Judicial Branch
State Employees Salary Book
Iowa State Association of Counties

April 20, 2005

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.
